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U.S. ECONOMIC CONDITIONS WILL DETERMINE PENNSYLVANIA'S NEAR-TERM COURSE

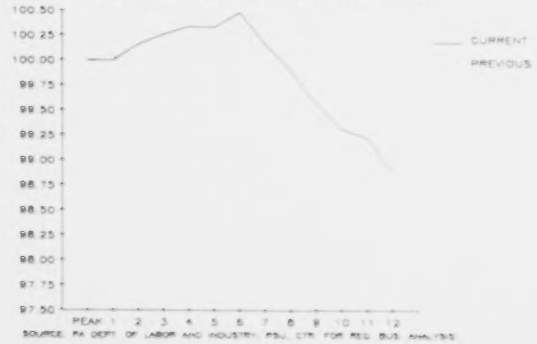
In recent issues of the *Pennsylvania Business Survey*, it has been argued that the State has not been hit quite as hard during the current recession as in previous declines and that the Commonwealth has held up well relative to the nation, at least compared with previous bouts with recession. Indeed, **in the 12 months since the U.S. economy peaked in July 1990, nonfarm jobs in Pennsylvania have not declined nearly as much as in the first 12 months of three previous recessions stretching back to the mid-1970s** (chart). In the three previous recessions, nonfarm job growth measured from the peak in the business cycle was consistently stronger in the nation than in the State (chart) as measured by negative growth differentials. (These differentials were calculated by subtracting U.S. growth from growth in the Commonwealth.) **Over the course of the past 12 months, job growth (measured from the business cycle peak) has been consistently higher in Pennsylvania than in the nation.**

However, there were also signs that Pennsylvania's relative showing in the past six months was not quite as impressive as in the first six months of the current recession. For instance, since January of this year, nonfarm jobs have declined a seasonally adjusted 1.6 percent. During months six through twelve of previous recessions, jobs fell 0.9 percent. In January 1991, job growth (from the July 1990 peak) in Pennsylvania was 1.2 points stronger than in the nation as a whole. As of July, that differential had shrunk to 0.2 percent.

Mid-summer trends suggested that there is little evidence to necessitate a change in the forecast for a sluggish recovery in the Commonwealth's economy in the months ahead. In fact, given that the U.S. recovery is appearing more and more fragile, even that may be a bit too optimistic. Perhaps the most surprising development in July was an apparent surge in residential building activity. The number of new housing units authorized by permit rose by one-fifth from a year ago and the value of residential contracts increased from June readings and from a year ago. The volatile multi-family sector saw permit authorizations double from a year-ago while the more stable single-family sector was home to an 11 percent gain, its strongest showing in recent memory (chart).

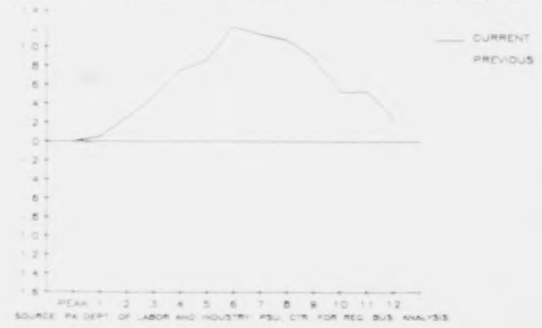
The jump in permit authorizations surely overstated the true strength of the building sector and will not be maintained in the months ahead. Furthermore, despite July's impressive tally, year-to-date trends continue to point down. Much the same is true with respect to contract valuations. Through July, contracts totaled $1.83 billion, down from $2.03 billion during the first seven months of 1990. In addition, building-related jobs, seasonally adjusted, con-

PA NONFARM JOBS DURING THE PAST 12 MONTHS AND IN THREE PREVIOUS RECESSIONS
(peak in U.S. business cycle=100)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY; PSU, CTR. FOR REG. BUS. ANALYSIS

PA AND U.S. PCT. POINT NONFARM JOB GROWTH DIFFERENTIALS DURING THE PAST 12 MONTHS AND IN THREE PREVIOUS RECESSIONS
(growth measured from peak in U.S. business cycle)



SOURCE: PA DEPT. OF LABOR AND INDUSTRY; PSU, CTR. FOR REG. BUS. ANALYSIS

New Pennsylvania building permit authorizations
(percent change from year ago)

	July	Pct. chg.	Year-to-date	Pct. chg.
Residential	3,861	20.1	21,559	-7.8
Nonresidential	2,074	-17.3	12,827	-0.5

Source: U.S. Dept. of Commerce, Bureau of the Census.

tinued to track down in July as the warm-weather run-up in employment opportunities fell short of historical norms.

Overall trends in real estate activity were weak in recent months despite a strong second quarter gain of 21 percent from the previous three months in the sales of existing homes in Pennsylvania. Through the first six months of 1991, sales were down nearly 14 percent from the same period in 1990 in averaging more than 187,000 on an annual basis. Nationally, existing home sales were down just 5 percent.

Pennsylvania retailers continued a string of sluggish showings in June. To date, sales were off 3.8 percent from a year ago, including a 1.8 percent annual decline in June. The decline in sales activity was even more pronounced when an inflation rate of 4-5 percent is factored in. Once again, the weakness was especially evident in sales of durable goods. Not surprisingly, the number of new motor vehicles registered in the Commonwealth continued to fall through June. During the first half of the year, registrations were down nearly one-fifth from a year ago. Though not growing substantially, sales on the nondurable goods side are a bit more firm.

Trends in jobs and employment remained weak in July. **On the nonfarm jobs front, July's 5.12 million jobs was the smallest reading for the month since 1988. Weakness was evident across the board, including the service industries.** State and local government jobs fell considerably during the month, as evidenced by a rather large seasonally adjusted decline. Apparently, temporary summertime jobs programs, at least partially funded with public sector funds, were far less active this summer relative to previous years.

In 1990, average annual pay levels in most nonfarm in-

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1991		1990	1991		1990	1991		1990
	June	*July*	*July*	*June*	*July*	*July*	*June*	*July*	*July*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,168*	5,121	5,179	5,128*	5,110	5,168	112.3*	111.9	113.2
Service Producing									
No. of wage and salary jobs (thous.)	3,938*	3,893	3,888	3,918*	3,903	3,898	131.0*	130.5	130.3
Transportation and public utilities	269	264	263	268	269	267	102.3	102.7	102.2
Wholesale trade	275	274	280	272*	272	277	122.9*	122.7	125.1
Retail trade	906	903	902	903*	903	902	125.9*	125.9	125.8
Finance, insurance & real estate	304	305	304	301	301	300	138.2*	138.2	137.8
Service & miscellaneous	1,491*	1,491	1,462	1,480*	1,478	1,450	171.6*	171.3	168.1
Federal government	137*	137	147	134	134	145	104.7*	104.7	113.0
State & local government	557*	519	530	561*	547	557	96.3*	93.9	95.6
Goods Producing									
No. of wage and salary jobs (thous.)	1,230	1,227	1,289	1,210*	1,208	1,270	76.9*	76.7	80.7
Construction	229*	235	248	219	215	228	118.9*	117.1	124.2
Mining	26*	26	28	26	26	28	53.9*	54.8	58.3
Manufacturing	975*	966	1,013	966*	966	1,013	72.0*	72.0	75.5
Durable goods	545*	540	576	539*	538	574	66.5*	66.4	70.8
Nondurable goods	430	426	438	428*	428	440	80.4*	80.5	82.6
Ave. wkly. hrs. worked by prod. workers	40.5	40.3	40.8	40.4	40.4	40.9	102.2	102.3	103.5
Total wkly. person-hours worked (mils.)	26.9*	26.4	28.5	26.6*	26.6	28.6	69.3*	69.2	74.6
Total wkly. payroll (mil. dols.)	307.6*	304.0	314.8	305.2*	306.2	317.2	135.8*	136.3	141.2
Average hourly earnings (dollars)	11.44	11.50	11.05	11.46	11.51	11.06	195.9	196.8	189.0
Average weekly earnings (dollars)	463.32	463.45	450.84	463.32	465.78	453.19	200.3	201.3	195.9
Steel production (thous. tons)	703	777	1,012	n.a.	n.a.	n.a.	32.6	37.0	48.2
Industrial electric power sales (mil. kwh)	3,819	3,782	3,905	3,722	3,730	3,829	100.8	101.0	103.7
Mining									
Anthracite coal (thous. net tons)	226	193	225	232	220	248	47.5	50.8	45.1
Bituminous coal (thous. net tons)	5,420	4,767	4,573	5,340	5,941	5,678	75.7	84.2	80.5
Construction contracts awarded (mil. dols.)									
Total	943.7	869.3	805.3*	713.8	820.3	765.9*	221.9	255.0	238.1*
Residential building	316.0	356.0	304.4*	295.0	328.0	276.3*	209.6	233.1	196.3*
Nonresidential building	357.6	320.5	313.2*	275.0	310.9	324.9*	253.5	286.5	299.5*
Nonbuilding (utilities and public works)	270.1	192.8	187.7*	143.8	181.4	164.7*	198.3	250.3	227.2*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,618	5,625	5,664	5,546	5,535	5,571	115.4	115.2	115.9
Unemployed									
No. of persons (thous.)	406	426	310	394	418	301	98.2	104.3	75.1
Rate (percentage of labor force)	6.7	7.0	5.2						
Rate, seasonally adjusted				6.7	7.0	5.1			
Civilian labor force, no. of persons (thous.)	6,024	6,051	5,974	5,940	5,953	5,872	114.1	114.3	112.8
Initial claims for unemployment benefits	97,940	123,194	106,487	115,733	112,825	100,717	80.8	78.8	70.3

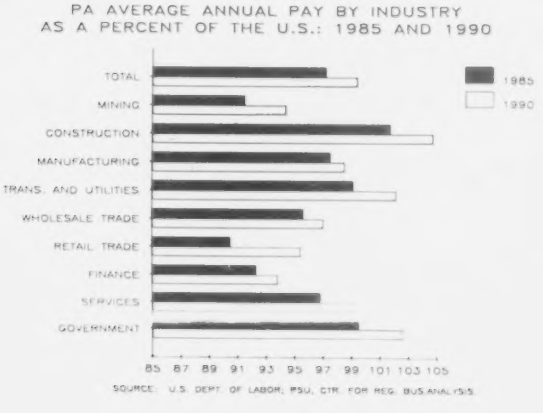
Consumer Prices, all items	Urban Indexes (1982-84 = 100)			Percentage Change	
	1991		1990	*Month Ago*	*Year Ago*
	June	*July*	*July*		
U.S. city average	136.0	136.2	130.4	0.1	4.4
Philadelphia	141.0	142.4	136.3	0.4	4.5
Pittsburgh	130.7	n.a.	125.0&	n.a.	4.6

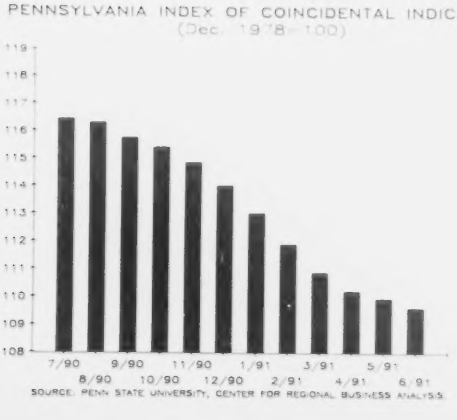
[1] Total includes workers on strike. * = figure revised & figure for June 1990 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

Pennsylvania existing home sales
(seas. adj. ann. rate; thousands)

	Sales	Pct. change Qt. ago	Pct. change Yr. ago
1991:IIQ	205.2	21.0	- 9.4
1991:IQ	169.6	-33.5	-18.3
1991 YTD	187.4	n.a.	-13.7

Source: National Association of Realtors.
Most recent data are preliminary.





Pennsylvania retail sales
(millions of dollars; pct. chg. from year ago)

	June	Pct. chg.	Year-to-date	Pct. chg.
Total	6,858	- 1.8	38,342	- 3.8
Durables	2,349	- 8.8	12,343	-14.1
Bldg. mat.	281	-19.0	1,365	-14.7
Auto dlrs.	1,465	- 7.2	7,551	-12.4
Furniture	258	-21.1	1,519	-20.9
Other	345	6.5	1,908	-14.2
Nondurables	4,509	2.3	25,999	2.0
Gen. mdse.	682	- 6.2	3,827	- 1.3
Food/grocery	1,515	8.3	8,747	6.9
Gas	449	9.2	2,526	5.7
Apparel	348	2.7	1,996	4.6
Eat/drink	822	- 2.7	4,277	- 9.7
Drugs	276	2.6	1,701	7.5
Other	417	- 0.2	2,925	4.5
Seas. adj. total: June	6,708			
May	6,857			

Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census.
Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis.
Data in the sub-categories of the durable and nondurable groups are subject to relatively large sampling variability.

New Pennsylvania motor vehicle registrations
(percent change from year ago)

	Total registrations	Pct. change
June	47,536	-18.9
1991 YTD	256,582	-18.4
12-month total	554,592	-13.8

Source: R.L. Polk & Co.

dustries in Pennsylvania were slightly below the national average. Only construction, transportation/public utilities, and government had above-average pay scales. Total average pay, at $23,457, was nearly $150 below the U.S. norm. However, in the nine industries analyzed, the gap between the State and the nation narrowed between 1985 and 1990 (chart).

The jobless rate in the Commonwealth was above the 7 percent mark in four of the past five months, including a 7 percent reading in July. One has to go back to the first half of 1986 to find a similar string of readings. At an unadjusted 5.63 million, the number of residents officially listed among the employed in July stood at its lowest reading for the month in three years. At best, the overall employment/unemployment situation should perhaps be characterized as being in a holding pattern in recent months, with no signs of overall upward or downward pressure.

All things considered, the Pennsylvania economy likely remained in the grasp of a relatively mild recession in the mid-summer months. Indeed, the Pennsylvania Index of Coincidental Indicators continued to track down through June (chart). However, the Index of Leading Indicators remained on an upward track in July, where it has been since the first of the year (chart). This suggests that upcoming months should bring the end of the recession with it. Only time will tell if this qualitative measure of the State's future performance is on target or sending a false signal. If the U.S. economy remains on track, albeit with minimal growth, it is likely that some gains will be realized in the Pennsylvania economy in the near-term. However, if some recent soft-spots in the national economy drag the nation into a "double-dip" recession, things will turn worse again in the Commonwealth before they get better.

— William D. Anderson

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Pennsylvania personal income
(seas. adj. ann. rates; millions of dollars)

		Pct. change			Pct. change	
	Personal income	Qt. ago	Yr. ago	Nonfarm personal income	Qt. ago	Yr. ago
1991:IQ	226,071	0.4	4.1	224,982	0.4	4.3
1990:IVQ	225,257	0.6	5.7	224,182	0.7	5.7

Source: U.S. Dept. of Commerce, Bur. of Econ. Analysis

Personal Income Report

One must look long and hard to find only one piece of good news in the most recent personal income data for this year's first quarter in Pennsylvania. At a seasonally adjusted annual level of $226.1 billion, total personal income in the Commonwealth during the first three months of the year was up 0.4 percent from the previous quarter and 4.1 percent from a year ago. Nationally, growth came in at a quarterly rate of 0.3 percent and at an annual clip of 4 percent. This came on the heels of lengthy period, lasting several years, during which income growth was much stronger in the nation than in the State. For instance, except for 1989, personal income growth had trailed the national average since the mid-1970s.

That was the extent of the good news. Overall trends point to the fact that the State's economy was, indeed, the weakest it had been since the back-to-back recessions of the early 1980s. Growth from the previous three months during the first quarter was the weakest since second quarter 1972. The annual gain was the smallest since 1983:IIQ. Only one other time since 1970 (the second quarter of 1972) had annual growth been slower. After adjusting for inflation, real personal income in the Commonwealth, perhaps the best overall measure of the economy's health, was on the decline for the past 6-9 months. This represented the most convincing evidence of the recession's hold on the Pennsylvania economy.

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